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SUBJECT: INDONESIA TRADE AND INVESTMENT HIGHLIGHTS -
SEPTEMBER-NOVEMBER 2006

¶1. Summary. On November 28, Indonesia and Japan agreed in principle to the major elements of a bilateral "Economic Partnership Agreement" (EPA). Parliament approved an amended Customs Law on October 18 that reduces red tape for importers and exporters and imposes stiffer sanctions on smugglers. The Central Bureau of Statistics (BPS) announced on December 1 that Indonesia's exports grew 16.3 percent in the first ten months of 2006 compared to the same period a year earlier. Less positively, the Investment Coordinating Board (BKPM) announced on November 14 that realized foreign direct investment fell 48 percent YOY to USD 4.48 billion during the first ten months of the year. On October 6, Indonesia and China signed several bilateral agreements in Bali aimed at boosting mutual trade and investment. The State Board of Logistics (Bulog) announced on October 2 that Indonesia would import 210,000 metric tons of rice from Vietnam worth USD 62.58 million. Minister of Trade Mari Pangestu announced on September 15 that the Government of Indonesia (GOI) plans to issue white sugar import permits in 2007 to fill an existing gap between domestic output and consumption. The Indonesian Safeguard Committee (KPPI) announced on September 22 that it had dropped its safeguard investigation against cast and rolled glass from the U.S. and a number of Asian and European countries. End summary.

Indonesia and Japan Announce Trade Agreement

¶2. On November 28 in Tokyo, visiting Indonesian President Susilo Bambang Yodhoyono and Japanese Prime Minister Shinzo Abe announced an agreement in principle between their two countries on "major elements" of a Japan-Indonesia "Economic Partnership Agreement" (EPA). Under the EPA, the two countries hope to build closer economic relations through cooperation on capacity building, trade, investment and services liberalization, and cooperation on energy. In trade area, Indonesia and Japan have agreed to eliminate or reduce tariffs covering more than 90 percent of current bilateral trade by value. Sectors subject to tariff reduction or elimination include agriculture, forestry, fishery and industry. According to a Japanese Embassy press release, the two sides agreed to make commitment to enhance trade in a number of services sectors including professional, communication, construction, distribution, education, financial, health and social related, tourism and transportation services. The EPA will also facilitate investment between the two countries through commitments on

national treatment, prohibition of performance requirements, a dispute settlement mechanism and enhanced investment protection.

¶3. Under the EPA, Indonesia and Japan agreed to cooperation in a wide range of industrial, agricultural, and services sectors undergoing liberalization. The two sides also committed to enhance cooperation between their customs administrations through information exchanges, simplified customs procedures, and improved enforcement. The two countries also agreed to cooperate to improve the protection of intellectual property (IP) rights, enhance transparency in government procurement, strengthen competition policy and improve the business environment.

¶4. Indonesia and Japan also agreed to promote and facilitate investment in the energy and mineral resources sector under the EPA through a strengthened policy dialogue and other cooperation. Press reports said that Japan pledged to increase technical assistance to Indonesia in the areas of coal-to-liquid and energy-saving technology. Indonesia is the largest supplier of natural gas to Japan, as well as the third and sixth largest exporter of coal and crude oil, respectively, to Japan.

House Passes New Customs Law

¶5. The House of Representatives approved an amended Customs Law on October 18 that cuts red tape for importers and exporters and imposes stiffer sanctions on smugglers. The revision is part of the GOI's effort to improve Indonesia's business and investment climate by overhauling taxation, investment, and customs and excise statutes. Article 5 of

JAKARTA 00013451 002 OF 004

the new law makes a potentially important change for importers and exporters by allowing them to submit customs clearance documents electronically. Article 102 increases the penalties for individuals convicted of smuggling up to a maximum of 20 years in prison and a fine of up to Rp 100 billion (\$10.8 million). The law also increases penalties for customs officials involved in smuggling by a third.

¶6. Minister of Finance Sri Mulyani expressed optimism on October 18 that the new law would enhance Indonesia's trade with the rest of the world, leading to greater economic development in the country. Mulyani also expressed hope that the new law would support the rapid development of Indonesia's trade and industry, provide legal certainty for businesses, and respond to the public desire to have a more transparent, efficient, and lower cost customs service. The new law also increases the sentences and penalties for graft to discourage smugglers.

Indonesia's Exports Pick Up

¶7. (U) BPS announced on December 1 that Indonesia's trade surplus rose to \$4.23 billion in October 2006, a 36% increase over the September figure, amid a significant rise in exports and a decline in the country's imports. Indonesia's total exports for the first ten months of 2006 reached \$82.2 billion, an increase of 16.3% year-on-year (YoY). Non-oil and gas exports accounted for \$64.7 billion of the ten-month total, a YoY increase of 17.9%. Commodities exports led non-oil and gas export growth, as coal and crude palm oil exports increased 47.6 and 16.9 percent, respectively. Rubber and rubber exports also increased significantly, growing 63.3 percent YoY during the first ten months of the year. January to October 2005 imports grew to USD 50.2 billion, a 3.1 percent increase over the same period in 2005. Indonesia's trade surplus for the first ten months 2006 was up 45.5 percent YoY to USD 32 billion.

Table 1: Indonesia Trade Performance Jan-Oct 2006
(in USD billions)

	Sep 06	Oct 06	2005 Jan Oct	2006 Jan Oct	Pct YoY (1)
Exports	8.78	8.72	70.7	82.2	16.3
Oil and Gas	1.59	1.59	15.8	17.5	10.8
Non-oil and Gas	7.19	7.13	54.9	64.7	17.9
Imports	5.66	4.49	48.7	50.2	3.1
Oil and Gas	1.92	1.67	14.8	16.2	9.5
Non-oil and Gas	3.74	2.82	33.9	34.0	0.3
Balance of Trade	3.12	4.23	22.0	32.0	45.5

(1) Percent increase year-on-year.

Foreign Investment Declines

¶18. (SBU) Indonesia's Investment Coordinating Board (BKPM) announced on November 14 that realized foreign direct investment (FDI) fell 48 percent to USD 4.48 billion from January to October 2006 compared to the same period in 2005. Realized domestic investment also fell by 19 percent YoY to Rp 13.56 trillion (\$1.49 billion) in the first ten months of ¶2006. However, FDI and domestic investment approvals rose during the same period, rising 18 percent (to \$13.2 billion) and over 225 percent (to Rp 143.7 trillion - \$15.8 billion), respectively. BKPM official Yus'an asserted that the high level of approvals reflects increased investor interest in Indonesia. However, Yus'an admitted that obstacles to Indonesia realizing those investment gains persist. He did not elaborate on the obstacles, but most analysts believe weak actual investment figures are a reflection of delays in the Government's economic and bureaucratic reform program. BKPM data do not cover industries such as oil and gas, banking and insurance.

JAKARTA 00013451 003 OF 004

Indonesia Imports Rice from Vietnam

¶19. Despite protests from farmers groups and some Parliamentary factions, Indonesia began importing significant quantities of rice from Vietnam during October and November. The imports follow the October 2 signing of contracts between the State Logistics Board (Bulog) and three Vietnamese companies for the importation of 210,000 metric tons of rice worth \$62.58 million. The three companies-- Vietnam Southern Food Corp., Kien Giang Trading Company and Tien Giang Food Company--were the winners in a Bulog tender process. The GOI decided to permit rice imports after the country's rice stocks dropped significantly due to the provision of large scale food assistance to victims of the May 2006 Yogyakarta earthquake.

Indonesia and China Sign Economic Trade Agreements

¶110. Indonesian Minister of Trade Mari Pangestu and visiting Chinese Minister of Commerce Bo Xilai signed several economic and trade cooperation agreements on October 6 in Bali. The agreements aim to boost bilateral economic, trade and technical cooperation, particularly in the investment field. The agreements include Memoranda of Understanding (MOUs) on preventing and curing bird flu, economic cooperation, the establishment of a joint investment promotion committee, and the development of a China-Indonesia Economic and Trade Cooperation Website. Both ministers expressed confidence that the two countries could reach their target of increasing bilateral trade to \$30

billion by 2010.

Indonesia to Issue Sugar Import Permits

¶11. Minister of Trade Mari Pangestu announced on September 15 that the GOI plans to issue white sugar import permits in 2007 to fill the gap between domestic output and consumption. The GOI is still determining what volume of sugar imports will be necessary and which importers will receive permits. Indonesia, as the largest sugar consumer in Southeast Asia, expects to produce 2.48 million tons of white sugar in 2006, compared to 2.24 tons in 2005.

Analysts expected Indonesia to consume between 2.6 to 2.7 million tons of sugar in 2006. Thailand is currently Indonesia's largest supplier of imported sugar. Minister of Agriculture Anton Apriyantono, however, announced on September 7 that his office would revise GOI regulations on sugar import tariffs to enable local refineries to compete more effectively for market share. Such a move would most likely increase import tariffs on sugar. A Ministry of Agriculture official said current import tariffs for sugar (\$57.64 per metric ton for raw sugar and \$27.18 per metric ton for white sugar) are too low and affecting the competitiveness of local sugar refiners.

GOI Drops Cast and Rolled Glass Anti-Dumping Investigation

¶12. The Indonesian Safeguard Committee (KPPI) announced on September 22 that it had dropped its safeguard investigation against cast and rolled glass from the U.S. and a number of Asian and European countries. Local glass producer PT. Tossa Shakti, located in Central Java filed a petition in April 2006 with the KPPI requesting an investigation as to whether imported products of cast glass (HS code 7003.19.2000) and rolled glass (HS code 7003.19.9000) had caused injury to the domestic market during the 2002-2005 timeframe. KPPI Chairperson Riyanto B. Yosokumoro noted that, based on its investigation, KPPI had found no causal link between the increase of imports during that time and any injury to the domestic industry.

Table 2: Indonesia's Top Non-Oil and Gas Exports
Jan-Oct 2006 (in USD billions)

Commodity	2005	2006	Pct of
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JAKARTA 00013451 004 OF 004

	Jan- Oct	Jan- Oct	Total 2006
Electrical tools	6.06	6.05	9.36
Coal	3.56	5.26	8.13
Crude Palm Oil	4.13	4.83	7.47
Rubber and rubber products	2.94	4.80	7.43
Machinery/mechanical tools	3.79	3.55	5.49
Ash and Residues	2.55	3.51	5.43
Garments - not Knitted	2.62	2.81	4.34
Wood and wood products	2.65	2.70	4.18
Chemical Organic	1.32	1.54	2.38
Plastic and plastic products	1.31	1.49	2.31
Total top 10 products	30.93	36.55	56.52
Other	23.93	28.12	43.48
Total non-oil and gas exp	54.86	64.67	100.00

Table 3: Indonesia's Main Non-Oil and Gas
Export Destinations
Jan-Oct 2006 (FOB value, in \$ billions)

Country of Destination	2005 Jan-Oct	2006 Jan-Oct	Percent of Total (2006)
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Japan	7.92	9.68	14.97
European Union	8.40	9.68	14.97
U.S.A.	8.03	8.96	13.85
Singapore	5.84	6.40	9.90
China	3.26	4.45	6.88
Malaysia	2.69	3.25	5.03
South Korea	2.06	2.72	4.21
Taiwan	1.45	1.88	2.91
Australia	0.95	1.16	1.80
Others	14.26	16.48	25.48
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Total	54.86	64.67	100.00

Source: Central Bureau of Statistics (BPS)

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